

Office of the
Legislative Fiscal Analyst

FY 2004 Budget Recommendations

Joint Appropriations Subcommittee for
Capital Facilities and Administrative Services

Utah Department of Administrative Services
**Division of Facilities Construction and Management
Administration**

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1.0 Summary: Division of Facilities Construction and Management - Administration

The Division of Facilities Construction and Management (DFCM) is the building manager for all State owned facilities. The division is responsible for all aspects of building construction for new state buildings and assists the Building Board in identifying the most critical alteration, renovation, repair, and improvement projects on existing buildings.

As the State Building Manager, the Director of DFCM oversees the following activities:

- construction of state buildings;
- space utilization studies;
- establishment of statewide space standards;
- agency and institution master planning;
- staff support for the State Building Board;
- lease administration.

	Analyst FY 2004 Base	Analyst FY 2004 Changes	Analyst FY 2004 Total
Financing			
General Fund	77,800		77,800
Dedicated Credits Revenue	712,000		712,000
Dedicated Credits - Intragvt Rev	484,900		484,900
Transfers	950,000		950,000
Project Reserve Fund	1,670,000		1,670,000
Beginning Nonlapsing	8,400		8,400
Closing Nonlapsing	(23,600)		(23,600)
Total	\$3,879,500	\$0	\$3,879,500
Programs			
DFCM Administration	3,096,600		3,096,600
Preventive Maintenance	141,400		141,400
Governor's Residence	77,800		77,800
HazMat	94,000		94,000
Roofing and Paving	469,700		469,700
Total	\$3,879,500	\$0	\$3,879,500
FTE/Other			
Total FTE	44		44

2.0 Issues

2.1 Consolidation of Line Items

DFCM's dual role as construction administrator and facility manager creates a diverse role for the agency that traditionally received funding from multiple line items. As facility manager for Capitol Hill and the Governor's Mansion, DFCM received funds in a separate line item (DFCM – Facility Management) to simplify tracking of expenditures for operation and maintenance. With the creation of the Capitol Preservation Board in 1998 and the transfer of repair funds for the Mansion, the DFCM Facility Management line item was reduced from approximately \$3 million in General Fund to \$77,800. Preventative Maintenance is the only other program in that line and it is funded through dedicated credits. Beginning with the FY 2004 Recommendation the Analyst will consider these items, along with the Roofing and Paving program previously found in the internal service fund section, as part of the DFCM Administration line item.

2.2 Preventative Maintenance

DFCM operates a preventative maintenance program that helps state agencies conserve energy and improve maintenance efforts. The primary program focus is building auditing. These audits provide feedback to agencies regarding the quality of maintenance programs and offer recommendations on how to improve efficiency.

2.3 Governor's Residence Appropriation

The Governor's Mansion is used by the Governor for formal functions, meetings and private gatherings. Given current budget pressures, the Analyst believes that funding for staff and security at the Mansion should be part of the Governor's appropriated budget. Section 3.3 provides further detail.

2.4 Funding Shift for DFCM

With revenue shortfalls plaguing the state, creative solutions for funding state government were required for FY 2003. One solution involved funding DFCM's \$3 million operating budget from the projects it manages. Section 3.1 addresses the impact of this funding shift.

3.0 Programs: Division of Facilities Construction and Management –Administration

	2002 Actual	2003 Estimated	2004 Analyst	Est/Analyst Difference
Financing				
General Fund	2,698,400			
Dedicated Credits Revenue			476,600	476,600
Transfers	100,000	600,000	950,000	350,000
Project Reserve Fund	200,000	2,486,600	1,670,000	(816,600)
Beginning Nonlapsing	700			
Lapsing Balance	(12,200)			
Total	\$2,986,900	\$3,086,600	\$3,096,600	\$10,000
Expenditures				
Personal Services	2,545,000	2,606,400	2,606,400	
In-State Travel	43,900	54,600	54,600	
Out of State Travel	8,800	8,900	8,900	
Current Expense	141,200	160,900	170,900	10,000
DP Current Expense	248,000	255,800	255,800	
Total	\$2,986,900	\$3,086,600	\$3,096,600	\$10,000
FTE/Other				
Total FTE	35	35	35	

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

3.1 DFCM Administration

With revenue shortfalls plaguing the state, creative solutions for funding state government were required for FY 2003. One solution involved funding DFCM's \$3 million operating budget from the projects it manages. The shift allowed the Legislature to move \$2.8 million in General Fund to other pressing needs in state government without impacting DFCM's ability to properly meet its mission.

Funding for DFCM came from the Project Reserve Fund and the Contingency Reserve Fund – two funds that only have money in them if projects are managed properly. In reality, the ability of the Legislature to use these funds is something of a testament to DFCM's ability to bring projects in within budget. DFCM will have enough money in the Contingency Reserve and the Project Reserve funds to finance FY 2004 operations. If no additional development projects are added this year, the Legislature will have to make provisions for funding from other sources in FY 2005. At that time the legislature will still have a variety of options, including a transfer from Capital Improvements, a surcharge on leases, a direct appropriation or an add-on to development projects approved in the 2004 General Session.

DFCM Manages Hundreds of Projects

DFCM's responsibility for construction oversight includes all non-state funded projects, state funded developments, and capital improvements. Oversight extends beyond construction – payment for projects is cleared through the DFCM accounting team and payments to contractors are authorized from the construction account. At the end of 2002 DFCM reported 651 open projects with a total value of \$980 million.

DFCM Funding Shift

During the 2002 General Session the Legislature shifted funding sources for DFCM from General Fund to Project Reserve Fund and Contingency Fund. These two new funding sources are traditionally used to ensure projects are completed successfully and excess balances have been used to fund all or part of projects in past years. The fact that this money is available is a testament to DFCM's management over the last two or three years. Balances accrue in these funds only when projects come in under budget or when bids are lower than expected.

Current balances within the two funds should be sufficient to cover FY 2004 without jeopardizing projects. The Project Reserve Fund Balance is nearly \$2.2 million and the Contingency Reserve Fund totals just over \$6.3 million. Discussions with DFCM indicate that the following amounts could be used to fund FY 2004 operations:

Project Reserve	\$1,670,000
Contingency Reserve	950,000
Dedicated Credits (Capital Improvements).....	476,600
Total.....	\$3,096,600

The use of "non-state" funds allows the Legislature more flexibility by freeing up \$2.8 million in ongoing General Fund in both the current and upcoming budget year.

Although FY 2004 will be covered through reserve funds and dedicated credits, the Legislature should be aware that this may not turn into an ongoing source of funds. In order to accurately fund DFCM, three factors must be considered: bidding climate, workload and non-construction operations.

*Bidding Climate
Favors State*

The Project Reserve Fund grows when bids come in lower than anticipated. Since capital appropriations are based on estimated costs, overestimating costs could result in fewer projects while growing the Project Reserve Fund artificially. To ensure that the project reserve fund maintains a stable level, the Legislature retains the right to direct expenditures from the fund. DFCM provides monthly reports to the Building Board and Legislature as part of its commitment to manage project funds in the most efficient manner possible.

Current conditions in the construction industry are a boon to the state in taking bids for capital projects. Most projects let out to bid in the last two years came back lower than expected due to a slowing economy, increased competition and the willingness of bigger companies to compete for state work. As the economy recovers and work becomes more prevalent it will be less likely that the state will see the significant savings found over the past two years.

*Project
Management*

Over the last three years the Legislature funded a significant number of projects that DFCM must manage. This provided an increase in reserve funds that now can be used for operations. DFCM's current workload exceeds 400 projects and \$650 million.

DIVISION OF FACILITIES CONSTRUCTION & MANAGEMENT			
Project Management Sheet			
FY2003			
Total Projects	Amount	Projects	Average Project
Alcoholic Beverage Control	\$11,350,592	26	\$436,561
Agriculture	42,700	1	42,700
Corrections	9,349,747	26	359,606
Courts	14,910,716	11	1,355,520
DCED	240,000	2	120,000
DFCM Projects	72,569,808	36	2,015,828
Parks & Rec	31,415,692	25	1,256,628
DNR Wildlife	7,883,130	12	656,928
DNR Other	550,986	8	68,873
Bridgerland	2,257,366	4	564,341
Davis ATC	463,051	4	115,763
Ogden / Weber ATC	4,855,388	8	606,923
Uintah Basin ATC	425,135	3	141,712
Education Other	270,000	4	67,500
Health	1,033,358	9	114,818
State Hospital	16,288,242	6	2,714,707
Developmental Center	1,012,768	5	202,554
Youth Corrections	5,095,158	5	1,019,032
Human Services Other	665,844	4	166,461
National Guard	13,579,315	33	411,494
Public Safety	1,165,426	11	105,948
Transportation	4,187,846	13	322,142
C E U	2,834,691	11	257,699
Dixie	22,612,468	18	1,256,248
SLCC	49,336,024	23	2,145,045
Snow College	19,982,507	13	1,537,116
Southern Utah University	18,330,309	18	1,018,350
University Of Utah	178,200,566	36	4,950,016
USU	103,166,475	41	2,516,255
UVSC	55,400,034	11	5,036,367
WSU	39,781,653	20	1,989,083
Workforce Services	3,600,143	13	276,934
	\$692,857,138	460	\$1,506,211
Delegated Projects	(\$120,000,000)	(30)	
Other Non-State Commitments	85,000,000		
	\$657,857,138	430	\$1,529,900

*Workload must
match funding level*

One of the concerns with moving from state funds to project funds involved the policy shift that funded operations out of reserve funds and future projects. With 430 projects spread among fourteen program directors it seems that there will be plenty of work for the coming year. If only one or two development projects are funded in the 2003 General Session the Division worries that it may not have enough funds or work to maintain staffing levels without a General Fund appropriation. The Analyst believes that staffing level should be independent of funding source – if workload drops to a point where there is not enough work for the entire staff then adjustments should be made regardless of funding source.

*Construction Funds
Leasing Program*

In addition to managing capital development and improvement projects, DFCM leases space for state agencies. It would be possible to fund the leasing program as an internal service fund by adding a surcharge to each lease, essentially funding the program from user agencies. This may create increased overhead and will likely encourage agencies to attempt to circumvent the central service in favor of obtaining their own leases. The leasing team represents less than twenty percent of the total administration budget, so the Analyst recommendation includes funding for the leasing program from current sources. The Analyst will continue to work with DFCM to monitor operations and determine if another funding mechanism may be more efficient in the future.

3.2 Preventative Maintenance

	2002 Actual	2003 Estimated	2004 Analyst	Est/Analyst Difference
Financing				
Dedicated Credits Revenue	154,300	141,400	141,400	
Total	<u>\$154,300</u>	<u>\$141,400</u>	<u>\$141,400</u>	<u>\$0</u>
Expenditures				
Personal Services	116,900	116,600	116,600	
In-State Travel	3,000	2,900	2,900	
Out of State Travel	4,500	5,800	5,800	
Current Expense	22,000	13,000	13,000	
DP Current Expense	7,900	3,100	3,100	
Total	<u>\$154,300</u>	<u>\$141,400</u>	<u>\$141,400</u>	<u>\$0</u>
FTE/Other				
Total FTE	2	2	2	

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

Preventative maintenance includes those functions that prolong the life cycle of mechanical equipment, electrical systems, roofs, floors, and other safety systems. The Division has responsibility to ensure that all State owned facilities are on a preventative maintenance schedule. The program oversees Facility Condition Assessments and manages the Facility Audit program.

*Facility Condition
Assessments measure
physical building
needs*

Facility Condition Assessments (FCA) provide information on structural and architectural needs of state buildings. To date, contract engineers surveyed more than 25 million square feet of space and provided recommendations to the building board regarding future Capital Improvement Needs. Approximately eighty-five percent of Capital Improvement funding is driven by the FCA program.

*Facility Audits
measure
maintenance
programs*

Facility Audits measure progress on routine maintenance issues. As originally designed, the program measured the process of maintaining a facility with little or no regard to physical condition. Once agencies learned how to better comply with maintenance standards DFCM began to add building condition to the scoring criteria. The logic is that the beginning point for any maintenance program is to set a standard. Once an agency achieves a sustainable level of performance they will begin to show the building to be in better shape.

3.3 Governor's Residence

	2002 Actual	2003 Estimated	2004 Analyst	Est/Analyst Difference
Financing				
General Fund	81,300	77,800	77,800	
Total	<u>\$81,300</u>	<u>\$77,800</u>	<u>\$77,800</u>	<u>\$0</u>
Expenditures				
Current Expense	81,300	77,800	77,800	
Total	<u>\$81,300</u>	<u>\$77,800</u>	<u>\$77,800</u>	<u>\$0</u>
FTE/Other				
*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency				

This program funds expenditures for security and costs associated with maintaining the Mansion as a ceremonial gathering place. Following a fire that caused severe internal damage, the Governor moved into a private residence. Costs associated with maintaining the actual residence are funded through a separate budget. In the past several years (dating to before the September 11 attacks) the Governor's Residence Program included increasing expenses for DPS security. A \$10,000 increase funded in FY 2002 was subsequently reversed, leaving the budget at \$81,300. Further across the board reductions in FY 2003 reduced the budget by an additional \$3,500.

Cuts should be absorbed in operating budgets

In addition to the \$77,800 provided for the Mansion in this line item, another \$256,700 is provided as part of the Governor's budget for his residence. The total expenditure on the Governor's living quarters exceeds \$330,000 a year. The net effect of two budget reductions in this program line is approximately four percent if the total residential budget is considered. The Analyst believes that DFCM should charge the Governor's line item for any services above the appropriated amount to keep the program from building negative retained earnings in the Internal Service Fund account.

3.4 Roofing and Paving

	2002	2003	2004	Est/Analyst
	Actual	Estimated	Analyst	Difference
Financing				
Dedicated Credits - Intragvt Rev	428,100	484,900	484,900	
Beginning Nonlapsing		100	8,400	8,300
Closing Nonlapsing	(100)	(8,400)	(23,600)	(15,200)
Total	<u>\$428,000</u>	<u>\$476,600</u>	<u>\$469,700</u>	<u>(\$6,900)</u>
Expenditures				
Personal Services	328,400	362,400	363,500	1,100
In-State Travel	5,300	5,300	5,300	
Out of State Travel	2,100	14,200	6,900	(7,300)
Current Expense	84,600	87,600	86,900	(700)
DP Current Expense	2,000	2,000	2,000	
Other Charges/Pass Thru	5,600	5,100	5,100	
Total	<u>\$428,000</u>	<u>\$476,600</u>	<u>\$469,700</u>	<u>(\$6,900)</u>
FTE/Other				
Total FTE	6	6	6	

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

The roofing and paving program began in FY 1998 as a means to improve the life cycle of state facilities. In addition to inspections, repairs, and maintenance, the program is responsible for identifying, specifying, and managing all roofing and paving projects.

This program was initiated to address the following issues:

- The state's roofs and parking lots were failing prematurely, resulting in early replacement;
- Inspections for new and replacement construction were not being conducted consistently or timely;
- The successful Utah Correctional Industries roofing repair program was underutilized and needed more projects.

In prior years management of this program came through the internal service fund program within DFCM even though funding came from Capital Improvements. DFCM's recent reorganization moved the Roofing and Paving program under the Capital Improvements director. Therefore, the Analyst believes that reporting would be more appropriately done in the DFCM Admin budget. Non lapsing amounts are derived from expected retained earnings. In the future the program should return all ending balances to the Capital Improvement Fund.

Costs dropping as projects increase

The last two years have seen the cost per project drop significantly. While the complexity of projects can impact price, the trend is significant enough to show that the new management program at DFCM provides significant value to the taxpayer.

	1999	2000	2001	2002
Roofing Projects	125	170	188	272
Paving Projects	177	206	224	190
Total Projects	302	376	412	462
Program Budget	\$8,610,789	\$7,952,000	\$6,908,000	\$ 7,240,900
\$ Per Project	\$28,513	\$21,149	\$16,767	\$15,673

One factor that drives down the cost per project is the increasing number of projects. More projects can create economies of scale that lower costs through combined bidding. Another factor is the maintenance program that addresses minor issues early to prevent them from becoming major issues. When routine and emergency maintenance is performed in a timely fashion long term costs increases can be avoided.

3.5 Hazardous Materials Program

	2002 Actual	2003 Estimated	2004 Analyst	Est/Analyst Difference
Financing				
Dedicated Credits Revenue		94,000	94,000	
Total	\$0	\$94,000	\$94,000	\$0
Expenditures				
Personal Services		80,100	80,100	
In-State Travel		3,200	3,200	
Out of State Travel		1,800	1,800	
Current Expense		8,800	8,800	
DP Current Expense		100	100	
Total	\$0	\$94,000	\$94,000	\$0
FTE/Other				
Total FTE			1	1

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

HazMat Program new as appropriated program

DFCM manages the Hazardous Materials Program. This is not a new program, but rather one that was previously budgeted as part of the Internal Service Fund.

The Hazardous Materials program receives money from Capital Improvements and from the Asbestos Settlement Fund. Each year DFCM and the building board prioritize abatement needs in conjunction with agencies. Utah Correctional Industries provides a source of low cost labor, allowing the program to stretch resources.

4.0 Additional Information: Division of Facilities Construction and Management – Administration

	2000	2001	2002	2003	2004
Financing	Actual	Actual	Actual	Estimated*	Analyst
General Fund	3,139,600	3,198,100	2,806,700	77,800	77,800
Dedicated Credits Revenue	137,200	133,200	154,300	235,400	712,000
Dedicated Credits - Intragvt Rev	385,500	407,300	428,100	484,900	484,900
Transfers	200,000	200,000	100,000	600,000	950,000
Project Reserve Fund			200,000	2,486,600	1,670,000
Beginning Nonlapsing	3,400	700	700	100	8,400
Closing Nonlapsing	(700)	(700)	(100)	(8,400)	(23,600)
Lapsing Balance			(12,200)		
Total	\$3,865,000	\$3,938,600	\$3,677,500	\$3,876,400	\$3,879,500
Programs					
DFCM Administration	3,033,200	3,089,800	2,986,900	3,086,600	3,096,600
Governor's Mansion	30,000	30,000	27,000		
Preventive Maintenance	137,200	133,200	154,300	141,400	141,400
DUP Museum	108,800	108,000			
Governor's Residence	81,300	81,300	81,300	77,800	77,800
Green House	30,000	30,000			
Council Hall	59,000	59,000			
HazMat				94,000	94,000
Roofing and Paving	385,500	407,300	428,000	476,600	469,700
Total	\$3,865,000	\$3,938,600	\$3,677,500	\$3,876,400	\$3,879,500
Expenditures					
Personal Services	3,072,800	3,167,100	2,990,300	3,165,500	3,166,600
In-State Travel	69,300	65,700	52,200	66,000	66,000
Out of State Travel	16,900	17,000	15,400	30,700	23,400
Current Expense	544,300	535,000	356,100	348,100	357,400
DP Current Expense	139,200	147,500	257,900	261,000	261,000
DP Capital Outlay	16,200				
Capital Outlay	6,300	6,300			
Other Charges/Pass Thru			5,600	5,100	5,100
Total	\$3,865,000	\$3,938,600	\$3,677,500	\$3,876,400	\$3,879,500
FTE/Other					
Total FTE	48	47	43	44	44

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency.